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John A. Ricker
Executive Director

Universal Service Programs Support

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

December 1, 2000

Magalie Roman Salas
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: TRS Fund Administration
Financial Statements
CC Docket No. 90-571 /

Dear Ms. Salas:

Enclosed herewith are the original and three (3) copies of the financial statements of the TRS fund for the seventh year of its operation (from August 1, 1999 through June 30, 2000), together with an auditor's report from an independent certified accounting firm, filed in accordance with 47 C.F.R. § 64.604(c)(4)(iii)(D) and (H).

On July 14, 1999, the FCC issued an Order in CC Docket No. 98-171 that, among other things, changed the TRS fund year from April – March to July – June beginning in 2000. In a November 23, 1999 letter, NECA confirmed with the FCC a change in the financial year from August 1 through July 31 to coincide with the fund year. In order to make that transition, this filing covers an eleven-month period. Subsequent filings will cover July 1 through June 30.

Please acknowledge receipt of this letter and filing by affixing a notation on the duplicate copy of this letter that is enclosed and remitting the duplicate to the bearer.

Very truly yours,

John A. Ricker

Enclosures

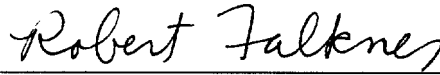
cc: K. Schroder
K. Moran
J. Rodriguez
C. Keller
S. Pies
L. Selzer
J. Lande
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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served this 1st day of December, 2000, by mailing copies thereof by United States Mail, first class postage paid, or by hand delivery, to the persons listed below.



Robert Falkner

The following parties were served:

Magalie Roman Salas*
Office of the Secretary
445 Twelfth St., SW
Room TW-A325
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(Original and three copies)

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ARTHUR ANDERSEN

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NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.

DEC 1 2000

**FINANCIAL STATEMENTS OF THE TELECOMMUNICATIONS
RELAY SERVICES FUND FOR THE ELEVEN MONTH PERIOD
FROM AUGUST 1, 1999 THROUGH JUNE 30, 2000 AND THE
YEAR ENDED JULY 31, 1999
TOGETHER WITH AUDITORS' REPORT**

**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY**



ARTHUR ANDERSEN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of the
National Exchange Carrier Association, Inc.:

We have audited the accompanying balance sheets of the Telecommunications Relay Services Fund ("TRS Fund") administered by the National Exchange Carrier Association, Inc. ("NECA" or the "Company") as of June 30, 2000 and July 31, 1999, and the related statements of changes in fund balance and cash flows for the eleven month period from August 1, 1999 through June 30, 2000 and the year ended July 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the TRS Fund administered by NECA as of June 30, 2000 and July 31, 1999, and its changes in fund balance and cash flows for the eleven month period from August 1, 1999 through June 30, 2000 and the year ended July 31, 1999 in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Roseland, New Jersey
November 17, 2000

TELECOMMUNICATIONS RELAY SERVICES FUND

BALANCE SHEETS

AS OF JUNE 30, 2000 AND JULY 31, 1999
(in thousands)

| | June 30, 2000 | July 31, 1999 |
|---|------------------|------------------|
| ASSETS: | | |
| Cash and cash equivalents (Note 2) | \$ 12,675 | \$ 24,908 |
| Receivables from contributors (Notes 1 and 2) | 317 | 2,400 |
| Interest receivable | 2 | 11 |
| Total assets | <u>\$ 12,994</u> | <u>\$ 27,319</u> |
| LIABILITIES AND FUND BALANCE: | | |
| Liabilities- | | |
| Payable to TRS service providers (Note 1) | \$ 7,645 | \$ 6,866 |
| Accounts payable and accrued expenses | 27 | 33 |
| Total liabilities | <u>7,672</u> | <u>6,899</u> |
| Fund balance | 5,322 | 20,420 |
| Total liabilities and fund balance | <u>\$ 12,994</u> | <u>\$ 27,319</u> |

The accompanying notes are an integral part of these statements.

TELECOMMUNICATIONS RELAY SERVICES FUND

STATEMENTS OF CHANGES IN FUND BALANCE
FOR THE ELEVEN MONTH PERIOD FROM AUGUST 1, 1999 THROUGH
JUNE 30, 2000 AND THE YEAR ENDED JULY 31, 1999
(in thousands)

| | <u>Eleven Months Ended June 30, 2000</u> | <u>Year Ended July 31, 1999</u> |
|--|--|---|
| REVENUE AND OTHER ADDITIONS: | | |
| Amounts billed to contributors (Notes 1 and 2) | \$ 23,824 | \$ 38,164 |
| Interest income (Note 2) | 1,179 | 1,315 |
| Total revenue and other additions | <u>25,003</u> | <u>39,479</u> |
| EXPENDITURES AND OTHER DEDUCTIONS: | | |
| Service providers (Note 1) | 39,782 | 39,362 |
| Administrative costs (Note 3) | 319 | 365 |
| Total expenditures and other deductions | <u>40,101</u> | <u>39,727</u> |
| Decrease in fund balance | <u>(15,098)</u> | <u>(248)</u> |
| FUND BALANCE, beginning of period | <u>20,420</u> | <u>20,668</u> |
| FUND BALANCE, end of period | <u>\$ 5,322</u> | <u>\$ 20,420</u> |

The accompanying notes are an integral part of these statements.

TELECOMMUNICATIONS RELAY SERVICES FUND

STATEMENTS OF CASH FLOWS

FOR THE ELEVEN MONTH PERIOD FROM AUGUST 1, 1999 THROUGH
JUNE 30, 2000 AND THE YEAR ENDED JULY 31, 1999
(in thousands)

| | <u>Eleven Months Ended June 30, 2000</u> | <u>Year Ended July 31, 1999</u> |
|---|--|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from contributors | \$ 25,907 | \$ 37,331 |
| Cash paid to TRS service providers | (39,003) | (38,825) |
| Cash paid for administrative costs | (325) | (373) |
| Interest received | 1,188 | 1,308 |
| Net cash used in operating activities | <u>(12,233)</u> | <u>(559)</u> |
| CASH AND CASH EQUIVALENTS, beginning of period | 24,908 | 25,467 |
| CASH AND CASH EQUIVALENTS, end of period | <u>\$ 12,675</u> | <u>\$ 24,908</u> |
| RECONCILIATION OF DECREASE IN FUND BALANCE TO NET CASH USED IN OPERATING ACTIVITIES: | | |
| Adjustments to reconcile decrease in fund balance to net cash used in operating activities- | | |
| Decrease in fund balance | \$(15,098) | \$ (248) |
| Decrease (increase) in receivables from contributors | 2,083 | (833) |
| Decrease (increase) in interest receivable | 9 | (7) |
| Increase in payable to TRS service providers | 779 | 537 |
| Decrease in accounts payable and accrued expenses | (6) | (8) |
| Net cash used in operating activities | <u>\$(12,233)</u> | <u>\$ (559)</u> |

The accompanying notes are an integral part of these statements.

TELECOMMUNICATIONS RELAY SERVICES FUND

NOTES TO FINANCIAL STATEMENTS

FOR THE ELEVEN MONTH PERIOD FROM AUGUST 1, 1999 THROUGH
JUNE 30, 2000 AND THE YEAR ENDED JULY 31, 1999

1. GENERAL

The Americans With Disabilities Act directed the Federal Communications Commission ("FCC") to establish regulations requiring nationwide telecommunications relay services ("TRS") by July 26, 1993. TRS facilities are equipped with specialized equipment and staffed by communications assistants who relay conversations for people with hearing and/or speech disabilities. On July 20, 1993, the FCC named the National Exchange Carrier Association, Inc. ("NECA" or "the Company") as administrator of the Telecommunications Relay Services Fund ("TRS Fund"). On June 30, 1995, the FCC reappointed NECA as the TRS Fund administrator for a four-year term through July 1999 (Third Report and Order, CC Docket No. 90-571). On June 30, 1999 NECA was appointed to a third 4-year term through July 25, 2003 (Memorandum Opinion and Order, CC Docket No. 90-571 released July 1, 1999).

A fund year is the period during which the TRS Fund collects from contributors and reimburses providers. TRS funds are billed and collected from all common carriers providing interstate services and distributed monthly to qualified TRS service providers. The annual contribution factor is developed by NECA and approved by the FCC every June based upon estimates of the revenue requirements necessary to provide services in the upcoming July 1st through June 30th period. Accordingly, at a given point in time, amounts may be receivable from or payable to fund participants.

The annual contribution factor approved by the FCC was \$.00039 per each dollar of interstate revenue for the period from April 26, 1998 through March 26, 1999. It was decreased to \$.00038 for the April 26, 1999 through March 26, 2000 period. It has been increased to \$.00073 for the July 2000 through June 2001 period. All factors are determined by NECA by taking into consideration the projected funding requirements of providing interstate TRS service, changes in the growth of interstate revenues throughout the industry, a safety margin of 10% and any fund surpluses/shortfalls which are carried over from prior years.

Payments to TRS service providers are based on interstate TRS conversation minutes, as submitted by the service providers, multiplied by a rate per minute as calculated by NECA and approved by the FCC. The rate per minute is an average rate among all service providers and is calculated based on the estimated costs to provide interstate TRS service divided by the expected conversation minutes to be provided. From January 1, 1998 through December 31, 1998, the per minute rate was \$1.168 per minute. From January 1, 1999 through June 30, 2000 the rate was increased to \$1.179 per minute. From July 1, 2000 through June 1, 2001, the rate has been increased to \$1.282 per minute.

On July 14, 1999, the FCC issued an Order in CC Docket No. 98-171, 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Services, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms. This Order has impacted the interstate TRS funding process in a number of ways including changing the contribution base to end user revenues, reducing the minimum contribution from \$100 to \$25, and changing the fund year from April – March to July – June. TRS providers were reimbursed from the fund surplus for April – June 2000. To coincide with the change of fund year effective July 1, 2000, the TRS Fund changed its fiscal year end from July 31st to June 30th.

On March 6, 2000, the FCC issued an Order in CC Docket No. 98-67. The Order is intended to improve the quality of the current relay service and provide new types of relay services including Video Relay Service and Interstate Speech to Speech minutes which will be provided commencing in year ended June 30, 2001. On June 28, 2000, the FCC approved the new provider minute rate for fiscal year 2001, as discussed above.

TELECOMMUNICATIONS RELAY SERVICES FUND

NOTES TO FINANCIAL STATEMENTS

FOR THE ELEVEN MONTH PERIOD FROM AUGUST 1, 1999 THROUGH
JUNE 30, 2000 AND THE YEAR ENDED JULY 31, 1999

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

TRS Fund considers all highly liquid securities, purchased with a maturity of three months or less, to be cash equivalents. Interest is credited to the TRS Fund when earned. The average annualized investment rate during the eleven month period ended June 30, 2000 was 5.75% and the average investment rate during the year ended July 31, 1999 was 4.89%.

Receivables from Contributors

The financial statement caption "Receivables from contributors" consists of billed funds that have not yet been collected from common carriers that provide interstate services. Uncollectable accounts are written off as a reduction to "Amounts billed to contributors". The annual contribution factor, approved by the FCC, provides for anticipated uncollectable accounts to avoid funding shortfalls. As such, the TRS Fund has not established an allowance for doubtful accounts. Write-offs against amounts billed to contributors for the eleven month period from August 1, 1999 through June 30, 2000 and for the year ended July 31, 1999 totaled approximately \$61,000 and \$254,000, respectively.

Use Of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. ADMINISTRATIVE COSTS

| Administrative costs (in thousands) consist of the following- | June 30, 2000 | July 31, 1999 |
|---|------------------|------------------|
| Cost allocation | \$ 211 | \$ 226 |
| Direct labor costs | 39 | 68 |
| Miscellaneous | 45 | 44 |
| Travel | 6 | 11 |
| Consultants | 18 | 16 |
| | <u>\$ 319</u> | <u>\$ 365</u> |

NECA administrative costs charged to the TRS Fund are allocated in accordance with NECA's Cost Accounting and Procedures Manual ("CAM") filed with and approved by the FCC. NECA annually submits a Statement of Cost Allocation System Compliance to the FCC for which a schedule of costs incurred by category (including TRS Fund) is attached. NECA has independent public accountants review NECA's cost allocation procedures to ensure such procedures are in compliance with the CAM. The latest attestation report issued was dated March 29, 2000 and covers the year ended December 31, 1999.

TELECOMMUNICATIONS RELAY SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
FOR THE ELEVEN MONTH PERIOD FROM AUGUST 1, 1999 THROUGH
JUNE 30, 2000 AND THE YEAR ENDED JULY 31, 1999

Costs for personnel assigned to the TRS Fund such as salaries, benefits and travel are directly charged to the TRS Fund. Common costs are accumulated in defined cost pools and allocated on a monthly basis to the TRS Fund using activity based cost drivers as further described in NECA's CAM. These costs include legal, auditing, finance, information systems, facilities, and general overheads.

4. INCOME TAXES

These financial statements present the activities of the TRS Fund. The TRS Fund was established in accordance with the American with Disabilities Act directed by the FCC and therefore not subject to Federal or state income taxes or sales, use, gross receipts or other taxes. As such, no provision for such taxes has been reflected in the accompanying financial statements.

5. TRS FUND ADVISORY COUNCIL

An interstate TRS Fund Advisory Council (the "Council") was formed in accordance with FCC rules to advise NECA on interstate TRS cost recovery matters. The Council meets at least twice annually.

According to the Council Bylaws, the Council can be comprised of not fewer than 6 and not more than 13 members. The FCC has ordered that members represent the following groups: persons with hearing and/or speech disabilities, TRS users - voice and text telephones, interstate telecommunications service providers, state regulatory representatives, and TRS providers. As of November 17, 2000, the Council had 13 members.